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HARBOR POLICE EMPLOYEES' RETIREMENT SYSTEM
NEW ORLEANS, LOUISIANA
FINANCIAL STATEMENTS
JUNE 30, 2001 AND 2000

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 9-26-01

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Harbor Police Employees' Retirement System

We have audited the accompanying statements of plan net assets of the Retirement Plan for the Harbor Police Employees' Retirement System (the Plan), as of June 30, 2001 and 2000 and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, information regarding the Plan's net assets as of June 30, 2001 and 2000, and the changes therein for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The required supplementary plan information on pages 8 and 9 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Plan's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 28, 2001 on our consideration of the Plan's internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations. That report is an integral part of our audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Postlethwaite & Netterville

Metairie, Louisiana
August 28, 2001

HARBOR POLICE EMPLOYEES' RETIREMENT SYSTEM
NEW ORLEANS, LOUISIANA

STATEMENTS OF PLAN NET ASSETS
JUNE 30, 2001 AND 2000

ASSETS

	<u>2001</u>	<u>2000</u>
<u>RECEIVABLES:</u>		
Member contributions	\$ 7,938	\$ 7,858
Employer contributions	7,938	7,858
Accrued interest	94,511	100,127
Other	9,845	15,975
Total receivables	<u>120,232</u>	<u>131,818</u>
<u>INVESTMENTS</u>, at fair value		
U.S. Government	1,817,743	3,453,327
Federal agencies	2,636,927	3,306,171
Corporate bonds	2,504,304	53,939
Money market mutual funds	188,157	396,013
Equity securities	3,834,349	4,111,954
Total investments	<u>10,981,480</u>	<u>11,321,404</u>
<u>TOTAL ASSETS</u>	<u>11,101,712</u>	<u>11,453,222</u>
<u>LIABILITIES</u>	<u>600</u>	<u>-</u>
<u>NET ASSETS HELD IN TRUST FOR</u>		
<u>PENSION BENEFITS</u>	<u>\$ 11,101,112</u>	<u>\$ 11,453,222</u>

The accompanying notes are an integral part of these statements.

HARBOR POLICE EMPLOYEES' RETIREMENT SYSTEM
NEW ORLEANS, LOUISIANA

STATEMENTS OF CHANGES IN PLAN NET ASSETS
YEARS ENDED JUNE 30, 2001 AND 2000

	<u>2001</u>	<u>2000</u>
<u>ADDITIONS:</u>		
Contributions:		
Members	\$ 102,282	\$ 104,268
Employer	102,282	104,348
Rollover and buyback contributions	-	24,180
Fines received	9,845	-
Investment income	515,694	548,247
Realized and unrealized gains (losses) on investments	<u>(374,043)</u>	<u>49,933</u>
Total additions	<u>356,060</u>	<u>830,976</u>
<u>DEDUCTIONS:</u>		
Benefits paid	603,344	619,369
Refunds and transfers of contributions	47,895	29,336
Administrative expenses	<u>56,931</u>	<u>55,430</u>
Total deductions	<u>708,170</u>	<u>704,135</u>
<u>INCREASE (DECREASE) IN PLAN NET ASSETS</u>	(352,110)	126,841
<u>NET ASSETS HELD IN TRUST FOR PENSION</u>		
<u>BENEFITS - BEGINNING OF YEAR</u>	<u>11,453,222</u>	<u>11,326,381</u>
<u>NET ASSETS HELD IN TRUST FOR PENSION</u>		
<u>BENEFITS - END OF YEAR</u>	<u>\$ 11,101,112</u>	<u>\$ 11,453,222</u>

The accompanying notes are an integral part of these statements.

HARBOR POLICE EMPLOYEES' RETIREMENT SYSTEM
NEW ORLEANS, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The Harbor Police Employees' Retirement System is a public corporation created to administer a retirement plan (the "Plan") for participating commissioned members of the Harbor Police Department of the Port of New Orleans (the "Police Department"). The Plan is administered by an eight member Board of Trustees. The Plan was created by Act 80 of 1971, as amended by various subsequent Acts, of the Louisiana Legislature (the "Act").

Plan administrator

The Board of Trustees has engaged a third party to provide actuarial services and to assist with certain administrative functions of the Plan.

Basis of accounting

The Plan's financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred. Investment purchases and sales are recorded as of their trade date. Employer and member contributions are recorded in the period the related salaries are earned. Administrative expenses are funded from investment earnings. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Investments

Investments are reported at fair value. Investments are reported at market value when published prices are available, or at cost, when it approximates fair value. Investments that do not have an established market are reported at estimated fair value.

Pension plan investments and financial statements are subject to market fluctuations that can rapidly change the fair value on a day-to-day basis. Such market swings can create material changes in unrealized appreciation (depreciation) of investments.

Use of estimates

The Plan Administrator and custodian have made significant estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of factors related to such assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

HARBOR POLICE EMPLOYEES' RETIREMENT SYSTEM
NEW ORLEANS, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

2. DESCRIPTION OF THE PLAN

The following brief description of the Plan is provided for general information purposes only. Participants should refer to the Plan agreement for a more complete description of the Plan's provisions.

General

The Plan is a single-employer defined benefit, contributory plan that covers all commissioned officers and employees of the Harbor Police Department of the Port of New Orleans, who were under the age of 50 on the date of employment.

Membership

At June 30, 2001 and 2000 there were 54 and 57, respectively, active members of the Plan (3 of whom were fully vested) and 71 and 70 inactive members, respectively, including 41 retirees and beneficiaries presently receiving benefits.

Benefits

The Plan, as amended, allows for members to retire at age 60 with 10 years of service, at age 55 with 12 years of service, at age 45 with 20 years of service, and at any age with 25 years of service.

Member benefits are equal to 3⅓% of average final compensation, as defined, multiplied by creditable service years, not to exceed 100% of final salary. The Plan also provides benefits for surviving spouses and disabled members. If a member resigns from the Police Department before retirement, accumulated employee contributions are refunded to the employee without interest.

The Board of Trustees is authorized, under certain conditions to provide annual cost-of-living increases. The cost-of-living adjustments may not exceed 3% of the current benefit (5% of the current benefit for 65 or older). Cost-of-living adjustments of 2.5% (4% for those 65 and older) were made for each calendar year 2001 and 2000. An action of the Board of Trustees with respect to cost-of-living adjustments as provided in R.S. 11:3685(D), employee contributions as provided in R.S. 11:154, and actuarial assumptions as provided in R.S. 11:3688(D), are considered amendments to the provisions of the Plan. Other amendments would require the Louisiana Legislature to revise the statutes. No amendment to the plan can deprive any member of a benefit to which he is already entitled.

HARBOR POLICE EMPLOYEES' RETIREMENT SYSTEM
NEW ORLEANS, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

3. INVESTMENTS

The plan invests funds received in accordance with guidelines established by the Act, which specifies that funds are to be invested in accordance with the same terms and conditions imposed by the State of Louisiana upon domestic life insurance companies.

The Plan's investments are categorized below to give an indication of the level of risk assumed at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the Plan or its agent in the Plan's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Plan's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the Plan's name. The categorization for the investments held at June 30, 2000 was the same as that shown herein following for investments held at June 30, 2001. Money market mutual funds are not characterized.

Investments at June 30, 2001 and 2000 were as follows:

Securities Type	<u>Credit Risk Category</u>			Carrying Amount (Fair Value)
	1	2	3	
2001				
U.S. government	\$ 1,817,743	\$ -	\$ -	\$ 1,817,743
Federal agencies	2,636,927	-	-	2,636,927
Corporate bonds	2,504,304	-	-	2,504,304
Money market mutual funds	-	-	-	188,157
Equity securities	3,834,349	-	-	3,834,349
Total investments at June 30, 2001	<u>\$ 10,793,323</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,981,480</u>
2000				
U.S. government	\$ 3,453,327	\$ -	\$ -	\$ 3,453,327
Federal agencies	3,306,171	-	-	3,306,171
Corporate bonds	53,939	-	-	53,939
Money market mutual funds	-	-	-	396,013
Equity securities	4,111,954	-	-	4,111,954
Total investments at June 30, 2000	<u>\$ 10,925,391</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,321,404</u>

HARBOR POLICE EMPLOYEES' RETIREMENT SYSTEM
NEW ORLEANS, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

3. INVESTMENTS (CONTINUED)

The Plan has no investments of any single organization (other than those issued or guaranteed by the U.S. Government) that represent five percent or more of the Plan's net plan assets, nor does the Plan hold more than five percent of any corporation's stock.

4. CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE

Funding of the Plan is provided from contributions from members and the Port of New Orleans (the "Port"), as specified in the Act. Members contribute, by payroll deduction, 7% of defined compensation.

The Port is required to make contributions to the Plan at actuarially determined rates expressed as a percentage of members' defined compensation; however, the maximum contribution by the Port shall not exceed thirteen percent of defined compensation. Level percentages of payroll employer contribution rates are determined using the entry age normal actuarial method until assets exceed the accrued actuarial liability, at which point the aggregate actuarial method is used. The aggregate method was applicable for fiscal years 2001 and 2000. This method produced a required employer contribution level at 21.01% and 16.81% (limited to 13%) of covered payroll for 2001 and 2000, which the Port directly funded at a rate of 7% of covered payroll for the fiscal years 2001 and 2000.

5. REQUIRED SUPPLEMENTARY INFORMATION

In accordance with GASB No. 25, required supplementary information can be found in the attached schedules.

REQUIRED SUPPLEMENTARY PLAN INFORMATION

HARBOR POLICE EMPLOYEES' RETIREMENT SYSTEM
NEW ORLEANS, LOUISIANA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS AND FINES

Fiscal Year Ended June 30	Contributions		Total	Employer Annual Required Contribution (including fines)	Employer Contributions and Fines as a Percentage of Annual Required Contributions	Employers' contributions limited to 13% by Act
	Employer Contributions	Fines				
1995	\$ 133,736	\$ 45,225	\$ 178,961	\$ 181,569	99%	\$ 154,375
1996	133,088	46,740	179,828	164,793	109%	147,440
1997	139,369	34,340	173,709	162,309	107%	153,344
1998	156,639	24,025	180,664	216,408	83%	191,381
1999	143,370	8,150	151,520	205,666	74%	188,418
2000	104,348	-	104,348	232,970	45%	180,178
2001	102,282	9,845	112,127	304,274	37%	188,824

HARBOR POLICE EMPLOYEES' RETIREMENT SYSTEM
NEW ORLEANS, LOUISIANA

REQUIRED SUPPLEMENTARY INFORMATION
ACTUARIAL METHODS AND ASSUMPTIONS
JUNE 30, 2001

The information presented in the required supplementary schedule was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	June 30, 2001
Actuarial cost method	Aggregate actuarial cost method, a method which does not identify or separately amortize unfunded actuarial liabilities
Asset valuation method	3-year smoothed market
Actuarial assumptions:	
Investment rate of return	7% per annum
Mortality	Mortality rates were projected based on the 1971 Group Annuity Mortality Table, male set back five years for females.
Termination, disability and Retirement	Termination rates were similar to the experience of other police plans throughout the state. Disability rates were based on the Eleventh-Actuarial Valuation of the Railroad Retirement System. Early retirement rates assumed were 10% for ages 45 to 49, 20% for ages 50 to 62, and 100% for ages 63 and over. Actual retirement of people eligible for retirement prior to the traditional age of 65 are dependent on intangible things such as the economy, health, financial ability, the Social Security System, and work patterns.
Salary growth	5% per year
Cost-of-living adjustments	Accumulated cost-of-living adjustments are included in costs. Adjustments for the next year are projected but future cost of living increases which are contingent on satisfaction of statutory requirements and approval by the Board of Trustees, are not projected.



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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees
Harbor Police Employees' Retirement System

We have audited the financial statements of the Harbor Police Employees' Retirement System (the "Plan"), as of and for the year ended June 30, 2001, and have issued our report thereon dated August 28, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Plan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings as finding 2000-01. We also noted immaterial instances of noncompliance, which we have reported to management of Harbor Police Employees' Retirement System in a separate letter dated August 28, 2001.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Plan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Trustees, management, and the Legislative Auditor of the State of Louisiana and is not intended to be and should not be used by anyone other than these specified parties.

Postlethwaite & Netterville

Metairie, Louisiana
August 28, 2001

HARBOR POLICE EMPLOYEES' RETIREMENT SYSTEM
NEW ORLEANS, LOUISIANA

SCHEDULE OF FINDINGS
JUNE 30, 2001

Finding 2000-01 (Repeat Finding)

Criteria: State of Louisiana Act 80 of 1971, §3690(D) and (F) require employer contributions based upon actuarial calculations to be made subject to a 13% maximum. §3684(E) provides that when at retirement a member is given credit for unused sick and unused annual leave, the Port of New Orleans shall pay into the system the increase in liability resulting from the credit for sick and annual leave. However, we could find no record of this provision ever being implemented.

Condition: The actuary calculated contribution rates of 16.81% and 21.01% for combined employers contributions and fines collected (assuming contributions to be made continuously during the year) for fiscal years ended June 30, 2000 and 2001. Contributions by the employer were funded 7% for the fiscal years ended June 30, 2000 and 2001. No fines were collected or remitted to the Plan during the year ended June 30, 2000. Fines collected were \$9,845 for 2001. At the present time no additional payments are made when a person retires with unused sick and annual leave that is credited to his retirement.

Cause and effect: Actuarial entry age normal calculations and GASB's funded ratios have indicated, prior to June 30, 2001 actuarial calculations, that the Plan has assets in excess of pension obligations and actuarial accrued liabilities; therefore, the Port of New Orleans and the Harbor Police Employees' Retirement System did not see the need to fund the actuarial required contribution. At June 30, 2001, the entry age actuarial cost method shows a \$300,711 unfunded actual accrued liability. At June 30, 2001 under GASB 27 the net pension benefit has decreased to \$63,985. The System did not receive the amounts the actuary determined as necessary.

Management response: The Board will fund up to a maximum of 13 percent. If the retirement plan has assets in excess of pension obligations, the Board may vary the contribution rate required by the actuary since the actuarial method does not take into consideration assets in excess of pension obligations. Fiscal Year 2001 marks the first year in probably over a decade that the retirement plan did not end up with assets in excess of pension obligations. The current unfunded liability of \$300,711 resulted from a decline in investments due to the stock market decline. There is a GASB 27 net pension benefit calculated by the actuary of \$63,985.

Recommendation: We recommend that as long as the actuarial required contribution exceeds 13% that the Port of New Orleans fund at the 13% level. We recommend that the payment for unused sick and annual leave be clarified by legal counsel.

HARBOR POLICE EMPLOYEES' RETIREMENT SYSTEM
NEW ORLEANS, LOUISIANA

SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2001

SECTION I INTERNAL CONTROL AND COMPLIANCE MATERIAL TO THE FINANCIAL STATEMENTS

None

SECTION II INTERNAL CONTROL AND COMPLIANCE MATERIAL TO FEDERAL AWARDS

2000-01 Employee contributions were funded at 7% instead of actuary calculated contribution rate and no additional payments for sick and annual credit pay ins.

Unresolved, see Management response to current year finding.

SECTION III MANAGEMENT LETTER

Clarification or Amendment of Retirement Plan

Partially resolved - Management has committed to hire an attorney to review the Plan and propose changes to ensure that the Plan reads according to current practice.

Bank Deposit to Wrong Account

Resolved



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August 28, 2001

Board of Trustees
Harbor Police Employees' Retirement System

In planning and performing our audit of the financial statements of Harbor Police Employees' Retirement System for the year ended June 30, 2001, we considered the Company's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control. We also performed tests of its compliance with certain provisions of laws, regulations and contracts, which could have a direct and material effect on the determination of financial statement amounts, but providing an opinion on compliance was not an objective of our audit.

During our audit, we became aware of certain nonmaterial instances of non-compliance. The memorandum that accompanies this letter summarizes our comments and suggestions regarding this matter. We previously reported on the Company's compliance issues that are required to be reported under *Government Auditing Standards* in our report dated August 28, 2001. This letter does not affect our report dated August 28, 2001, on the financial statements of Harbor Police Employees' Retirement System.

We will review the status of this comment during our next audit engagement. We have already discussed this comment and suggestion with various System personnel, and we will be pleased to discuss it in further detail at your convenience, to perform any additional study of this matter or to assist you in implementing the recommendations.

Postlethwaite & Netterville

Memorandum on Internal Controls and Compliance

Compliance with the Act (Repeat Comment)

In performing our audit, we noted several areas of the Act where we believe clarification or amendment may be needed for the System to ensure compliance. Some of the areas we noted include: the official name of the System, coverage of employees of the Harbor Police who are not commissioned officers, special employer payment for credit for unused sick and unused annual leave, the various definitions for compensation and the applications of same are not consistent or clear, whether or not the System should revert back to the entry age normal method, and the Act requires the separation of the assets into various funds which are not maintained in the accounting records.

HARBOR POLICE EMPLOYEES' RETIREMENT SYSTEM

1250 Poydras Street, Suite 350
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BOARD OF TRUSTEES:

Robert S. Hecker, Chairman
William H. Urban, Secretary
Archie T. Ben
Russell W. Honsinger
J. Robert Jumonville
Kevin L. Newman
Warner A. Turcaud
Gerald Young

September 10, 2001

Mr. Albert J. Richard, III
Audit Partner
Postlethwaite & Netterville
2324 Severn Avenue, Suite A
Metairie, LA 70001-1977

Dear Mr. Richard:

We have reviewed the Fiscal Year 2001 audit observations concerning suggested improvements to Harbor Police Employee's Retirement System's operation. Our response to your current findings and recommendations as well as prior year comments is as follows:

EMPLOYER CONTRIBUTIONS

The Board will fund up to a maximum of 13 percent. If the retirement plan has assets in excess of pension obligations, the Board may vary the contribution rate required by the actuary since the actuarial method does not take into consideration assets in excess of pension obligations. Fiscal Year 2001 marks the first year in probably over a decade that the retirement plan did not end up with assets in excess of pension obligations. The current unfunded liability of \$300,711 resulted from a decline in investments due to the stock market decline. There is a GASB 27 net pension benefit calculated by the actuary of \$63,985.

PRIOR YEAR COMMENTS

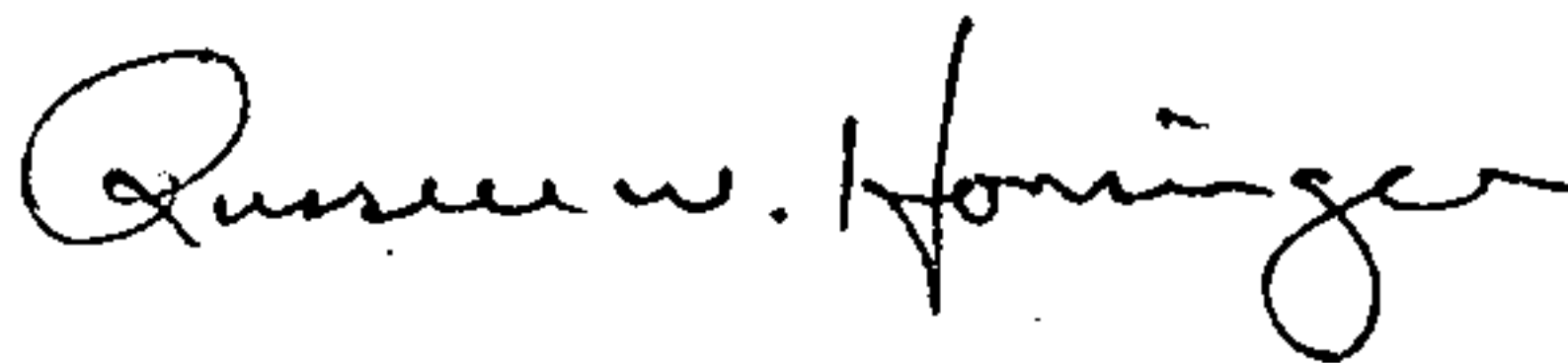
CLARIFICATION OR AMENDMENT OF RETIREMENT PLAN

An attorney will be hired during the year to review the Plan and propose changes to insure the plan reads according to current practices.

BANK DEPOSIT TO WRONG ACCOUNT

A review process has been implemented to insure contributions are properly credited.

Sincerely,

A handwritten signature in black ink, reading "Russell W. Honsinger". The signature is written in a cursive style with a large initial 'R' and a long, sweeping underline.

Russell W. Honsinger
Board Trustee